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Hy's of Canada Ltd. Annual Report Hy's
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1973





Hy's of Canada Ltd. Annual Report 1973

Cover Photograph:
Interior of Hy's Yorkville restaurant



President's Report to the Shareholders

We are pleased to report another excellent year in your Company's growth. The net profit has risen from 42¢ a share to 58¢ a share, which is a little over a 38% increase, and cash flow has increased from 91¢ per share to \$1.26 (the first time your Company has had a flow of over \$1.00 per share).

All in all we feel that this is a very satisfactory year in the progress of the Company, and while we would be reluctant to suggest that this type of growth can continue indefinitely, we would like to point out to shareholders that this represents the third consecutive increase in earnings of 38% or better per year compounded.

We would also like to draw the attention of shareholders to the fact that the Company has initiated a policy of paying two 10¢ dividends per year and we would mention as well that these dividends have been paid from surplus on which the Company has paid tax and are therefore tax-free in the hands of the shareholders.

We would be remiss not to mention that the Company has a working capital deficit because of its large capital expenditures in the last fiscal period; however, we have a very favourable overall ratio of assets to debt and see no problem in continuing our expansion with monies that are being made available to the Company from various financial institutions.

The operation of your Company's restaurants and subsidiary interests over the past year has been very gratifying and despite the various shortages that occurred in beef supply and the uncertainties and unusual price fluctuations, our operations continued to look after their clientele in a most satisfactory manner and our supply of product was never in jeopardy.

Our second major restaurant is now open in Toronto and while there are the usual initial teething problems, it seems to be operating successfully and profitably even in its early stages. At the moment your Company is in the process of building a new restaurant in Vancouver called the 12 Caesars, which highlights a great deal of display cooking and is a bit of a departure from our steak house format.

The Village Green Hotels, in which your Company has a substantial interest, have had an excellent year and are just finishing 32 additional rooms and larger banquet facilities in Duncan and are about to start a six storey addition of 54 rooms and additional private meeting space in Vernon, B.C. The only other expansion contemplated for your Company at the present time is for another restaurant in downtown Toronto. We were fortunate to obtain a long-term lease on a highly desirable core area location, which because of its locale is almost assured of success. This restaurant will probably not be in operation before the end of fiscal 1974.

The Company feels that with the existing operations and a modest expansion policy involving refurbishing and enlarging some of the existing restaurants, an excellent base has been established for a further increase in profits in fiscal 1974. However, we also feel that with economic conditions somewhat uncertain during the first part of 1974, it behoves the Company to consider any major expansion with extreme caution until we feel that all the indicators are positive. With this in mind we are looking toward a reasonably good year in 1974 and somewhat less commitment towards expansion.



Directors of the Company

Hy Aisenstat,
President, Hy's of Canada

Bernie Aisenstat,
Vice President, Operations, Hy's of Canada

Alan Eyre,
President, Duecks on Broadway Limited

Joe Garfin,
Real Estate Manager, Hy's of Canada

Don Rosebourne,
Vice President, Hy's of Canada

Jack Shatz,
Eastern Division Manager, Hy's of Canada

Arthur R. Smith,
President, Arthur R. Smith & Associates Ltd.



Consolidated Statement of Earnings and Retained Earnings

for the year ended September 30, 1973

Income

	1973	1972
Sales	\$8,794,848	\$7,181,868
Management and rental income	237,457	257,726
Income from affiliates	52,870	39,824

Expenses

Cost of sales and administration	7,181,458	5,942,588
Interest	119,631	72,548
Real estate expenses and rent	407,774	408,718
Depreciation	328,393	271,808
Amortization of deferred development expenses, contract rights and other intangibles	58,973	94,522

Earnings before Undnotated Items	8,096,229	6,790,184
	988,946	689,234

Provision for Income Taxes	362,905	295,481
Current	121,584	25,787
Deferred	484,489	321,268
	504,457	367,966

Minority Interest in Profit of Subsidiary	7,127	3,932
Earnings before Extraordinary Item	497,330	264,034
Extraordinary Item (Note 6)	10,872	4,953
Net Earnings for the Year	508,202	368,987

	1973	1972
Earnings before extraordinary item	\$.57	\$.41
Net earnings for the year	\$.58	\$.42

	1973	1972
As previously reported	813,898	532,127
Reduction of prior years' income taxes	9,086	51,373
Adjustment for amortization of intangibles	204,750	(36,636)
As restated	1,322,100	546,864

	1973	1972
Income Taxes Deferred in Prior Years (Note 4)	9,086	14,953
Dividends, including Tax thereon (Note 7)	213,836	87,000
	\$1,108,264	101,953
Retained Earnings, end of the year	\$ 813,898	



Consolidated Statement of Source & Application of Working Capital

for the year ended September 30, 1973

Source of Working Capital

Operations —

Earnings before extraordinary item	\$ 497,330
Amounts not requiring a current outlay of funds	
Depreciation	328,393
Amortization	58,973
Non-current deferred income taxes	107,856
Minority interest	7,127
	999,679
Disposal of marketable securities	9,230
Long-term borrowing	1,000,000
Income tax reduction as a result of losses carried forward	10,872
	2,019,781

1973

1972

\$ 364,034
271,808
94,522
61,168
3,932
795,464
65,006
653,325
—
1,513,795

Application of Working Capital

Repayment of long-term debt	782,620
Increase (decrease) in current portion of long-term debt	(79,159)
	703,461
Additions to fixed assets	1,403,878
Deferred development expenses	180,955
Increase in investments (net)	29,214
Purchase of marketable securities	112,500
Dividends, including tax thereon (Note 7)	204,750
Income taxes deferred in prior years	9,086
	2,643,844

224,524
35,640

260,164
832,183
137,464
84,467
—
87,000
14,953

Increase (Decrease) in Working Capital	(624,063)
Working Capital, beginning of the year	143,559
Working Capital (Deficiency), end of the year	\$ (480,504)

97,564

45,995

\$ 143,559



Consolidated Balance Sheet

September 30, 1973

ASSETS

	<u>1973</u>	<u>1972</u>
Current		
Cash.....	\$ 89,408	\$ 464,470
Short-term deposits and securities.....	—	400,000
Accounts receivable.....	459,798	303,109
Inventories — at cost.....	325,832	155,518
Prepaid expenses.....	152,740	116,287
Due from directors and officers.....	<u>15,955</u>	<u>20,884</u>
	<u>1,043,733</u>	<u>1,460,268</u>
Investments		
Affiliated companies (Note 2).....	367,243	364,250
Other.....	<u>34,383</u>	<u>8,162</u>
	<u>401,626</u>	<u>372,412</u>
Fixed — at cost		
Land.....	275,365	275,365
Buildings and leasehold improvements.....	4,057,765	2,960,672
Furniture and equipment.....	<u>1,491,666</u>	<u>1,184,881</u>
	<u>5,824,796</u>	<u>4,420,918</u>
Less: Accumulated depreciation.....	<u>1,599,019</u>	<u>1,270,626</u>
	<u>4,225,777</u>	<u>3,150,292</u>
Other		
Marketable securities — at cost (market value \$120,223; 1972 — \$17,535).....	128,929	25,659
Deferred development expenses, contract rights and other intangibles less amortization of \$437,782 (1972 — \$378,809).....	<u>541,557</u>	<u>419,575</u>
	<u>670,486</u>	<u>445,234</u>
	<u>\$6,341,622</u>	<u>\$5,428,206</u>



LIABILITIES

Current

	<u>1973</u>	<u>1972</u>
Bank loans — secured.....	\$ 288,969	\$ 50,000
Accounts payable and accruals.....	815,382	790,940
Income taxes payable.....	198,673	187,339
Current portion of long-term debt.....	168,673	247,832
Deferred income taxes (Note 4).....	<u>52,540</u>	<u>40,598</u>
	1,524,237	1,316,709
Long-Term Debt less current portion shown above (Note 3).....	<u>1,377,154</u>	<u>1,080,615</u>
Deferred Income Taxes (Note 4).....	<u>233,175</u>	<u>125,319</u>
Minority Interest	<u>27,441</u>	<u>20,314</u>

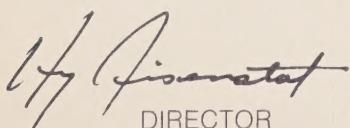
SHAREHOLDERS' EQUITY

Share Capital

Authorized		
1,000,000 common shares, no par value		
Issued		
870,000 shares.....	2,071,351	2,071,351
Retained Earnings	<u>1,108,264</u>	<u>813,898</u>
	<u>3,179,615</u>	<u>2,885,249</u>

Commitments, Contingent Liabilities
and Subsequent Events (Note 8)

On behalf of the Board:


H. F. Finsenstad
DIRECTOR


J. A. S. Adams
DIRECTOR

\$6,341,622

\$5,428,206



Notes to the Consolidated Financial Statements

September 30, 1973

1. Principles of Consolidation and Accounting Presentation

(a) The consolidated financial statements include the accounts of Hy's of Canada Ltd. and all of its subsidiaries. These subsidiaries are:

B. & B. Management Ltd.
Babs Management Ltd.
Bernbourne Management Ltd.
Boyd Investments Ltd.
Carman Investments Ltd.
Duke Management Ltd.
Enrose Management Ltd.
Hycate Holdings Ltd.
Hydon Holdings Ltd.
Hy's of Chicago Ltd.
Hy's Steak House (Eastern) Limited
Hy's Steak Loft Ltd.
Hy's Steak Out Ltd.
Jet-Line Services Ltd., and its wholly-owned subsidiary,
 Hy's Steak House Ltd.
Twelve Caesars Restaurant Ltd.

(b) The amounts of the assets, liabilities, income and expenses of the wholly-owned U.S. subsidiary have been converted to Canadian dollars at par.

(c) The 1972 comparative figures have been reclassified where applicable to conform with the presentation used in the current year.

2. Investment in Affiliated Companies — at cost

50% of common shares —

Interprovincial Properties Ltd.
Hymor Foods Ltd.
Kobe Japanese Steak Houses Ltd.

Less than 50% of common shares —

Old Spaghetti Factory Restaurant Ltd.
Old Spaghetti Factory (Man.) Ltd.
Village Green Inns Ltd.
Village Green Inns (Vernon) Ltd.

In addition to the investments and advances reflected above, trade account balances of \$18,016 (1972 — \$1,700) are included in accounts receivable.

	1973		1972	
	Shares	Advances	Shares	Advances
\$100	\$ 66,711		\$100	\$ 60,271
1	105,429		1	125,303
1	34,008		1	25,017
12	—		12	—
35	17,500		35	35,000
3	48,632		3	27,932
100	94,711		100	90,475
\$252	\$366,991		\$252	\$363,998



Notes to the Consolidated Financial Statements

3. Long-Term Debt

Bank demand loan — bank prime rate plus 2%, maturing in 1977

Industrial Development Bank — 11%, maturing in 1976 and 1980

Mortgages payable — 9% to 10%, maturing from 1978 to 1983

Agreement for sale — no interest, maturing in 1977

Note payable — bank prime rate plus 1%, maturing in 1974

The Company has negotiated repayment of a bank demand loan over a number of years and accordingly this loan has been included in long-term debt. During the year another demand bank loan previously included in long-term debt, was changed to an operating loan and the balance of this loan is now included in current liabilities.

Long-term debt is secured by specific charges on certain fixed and current assets of the Company.

4. Deferred Income Taxes

In addition to the deferred income taxes recorded in the accounts, income taxes (of certain subsidiaries) were reduced in prior years in the aggregate amount of \$44,432 of which \$9,086 became payable in the current year and has been applied against retained earnings. At September 30, 1973, accumulated tax reductions not recorded in the accounts amounted to \$35,346.

5. Remuneration of Directors and Senior Officers

The total remuneration paid during the year to directors and senior officers was \$169,000 (1972 — \$163,000).

	1973		1972	
	Amount	Due within one year	Amount	Due within one year
Bank demand loan — bank prime rate plus 2%, maturing in 1977	\$ 276,650	\$ 83,400	\$ 875,000	\$168,350
Industrial Development Bank — 11%, maturing in 1976 and 1980	155,000	42,000	197,000	42,000
Mortgages payable — 9% to 10%, maturing from 1978 to 1983	1,018,712	28,933	133,689	23,142
Agreement for sale — no interest, maturing in 1977	46,605	14,340	60,945	14,340
Note payable — bank prime rate plus 1%, maturing in 1974	48,860	Payments based on sales	61,813	Payments based on sales
	\$1,545,827	\$168,673	\$1,328,447	\$247,832



Notes to the Consolidated Financial Statements

September 30, 1973

6. Extraordinary Item

During the year the Company realized a reduction in income taxes of \$10,872 due to the carry forward of a subsidiary's losses for income tax purposes.

7. Dividends

During the year the Company increased its tax-paid undistributed surplus on hand by the payment of taxes of \$30,750. The Company paid dividends out of this tax-paid undistributed surplus totalling 20¢ per share and aggregating \$174,000.

8. Commitments, Contingent Liabilities and Subsequent Events

(a) Minimum rentals under existing lease agreements, excluding rentals based on a percentage of sales, will be approximately \$382,000 annually over the next five years. Total rent incurred for the year ended September 30, 1973 including rentals based on a percentage of sales amounted to \$370,511 (1972 — \$367,783).

(b) The completion of construction in progress at September 30, 1973 will require capital expenditures of approximately \$118,000.

(c) The Company has guaranteed loans and advances to affiliated companies up to approximately \$1,400,000. The Company has received indemnification from other parties in the amount of approximately \$700,000.

(d) Subsequent to September 30, 1973 the directors of the Company elected to increase tax-paid undistributed surplus on hand to \$104,800 by the payment of taxes of \$15,750. Subsequent to this election the directors of the Company declared a dividend of 10¢ per share payable on December 18, 1973 out of tax-paid undistributed surplus on hand.



Auditors' Report

*To the Shareholders of
Hy's of Canada Ltd.*

We have examined the consolidated balance sheet of Hy's of Canada Ltd. and subsidiary companies as at September 30, 1973 and the consolidated statements of earnings and retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1973 and the results of their operations and the source and application of their working capital for the year then ended, after due provision for minority interests, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Collins, Low, Eddis, Valiquette & Barron.
Chartered Accountants*

*Vancouver, B.C.
December 3, 1973*



Bankers:
Bank of Nova Scotia

Transfer Agents:
Canada Permanent Trust
Toronto and Vancouver.

Stock:
Listed on the Toronto and
Vancouver Exchanges.



Hy's Steak House,
73 Richmond Street West,
Toronto, Ontario

Hy's Yorkville,
133 Yorkville Avenue,
Toronto, Ontario

Hy's Steak Loft,
216 Kennedy Street,
Winnipeg, Manitoba

Hy's Steak House,
Midtown Plaza,
Saskatoon, Sask.

Hy's,
316 - 4th Avenue S.W.,
Calgary, Alberta

Hy's Steak Out,
College Mall,
Mayor Magrath Drive,
Lethbridge, Alberta

Hy's Encore,
637 Hornby Street,
Vancouver, B.C.

Hy's at the Sands,
1755 Davie Street,
Vancouver, B.C.

Hy's Prime Rib,
1177 West Hastings Street,
Vancouver, B.C.

Plaza II,
1075 West Georgia Street,
Vancouver, B.C.

Hy's Steak House,
777 Douglas Street,
Victoria, B.C.

Hy's,
100E Walton,
Chicago, Illinois

Little Harry's,
Hillside Shopping Centre,
3102 Shelbourne Street,
Victoria, B.C.

Kobe Japanese Steak House,
1042 Alberni Street,
Vancouver, B.C. (Affiliate)

Kobe Japanese Steak House,
Honolulu, Hawaii (Affiliate)

Village Green Inn,
141 Trans Canada Highway,
Duncan, B.C. (Affiliate)

Village Green Inn,
Vernon, B.C. (Affiliate)

12 Caesars Restaurant,
Vancouver, B.C. (Opening Soon)

Hy's of Canada Ltd.,
Head Office,
595 Hornby Street,
Vancouver, B.C.

Hy's
Famous
Seasoning
Salt

Now available
at retail stores.





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Concord

hys OF CANADA LTD.



INTERIM REPORT

MARCH 31, 1973



**HY'S OF CANADA LTD. AND SUBSIDIARY COMPANIES
INTERIM FINANCIAL REPORT
FOR THE SIX MONTH PERIOD ENDED MARCH 31, 1973**

May 30, 1973

PRESIDENT'S REPORT TO SHAREHOLDERS

It is pleasing to report that continuing the pattern and trend of the past two years volume has increased over 12%, actual cash flow is up 35% and net profit continues to show excellent growth, up 37%. These figures are in line with your Company's objectives and we look towards continually improving earnings for the balance of the year.

We should mention that the six month figures only reflect two months operation of the recently opened Chicago restaurant. We had hoped to have our new Toronto restaurant in operation by this time; however it is behind schedule because of building delays and while we are confident it will open in about a month, there will be no reflection of this new restaurant in the 1973 figures.

The Village Green in Vernon, in which your Company has a one-third interest, continues to out-perform all projections and plans are now being prepared for a further expansion of this operation some time in the next year. All in all the near term looks very encouraging for your Company and our businesses should prosper over the long term according to national indices.

While we are pleased to report continued progress of your Company, we regret to announce that Mr. Wm. E. Thomson, former President of Pemberton Securities Ltd. and one of our founding Directors, has decided to retire from the Board. His efforts and sincerity have been a real factor in our Company's policy and growth and his advice and experience will be difficult to replace. We wish to publicly acknowledge our appreciation to Mr. Thomson for serving on our Board.

President

HY'S OF CANADA LTD. AND SUBSIDIARY COMPANIES
 CONSOLIDATED STATEMENT OF EARNINGS
 FOR THE SIX MONTH PERIOD ENDED MARCH 31, 1973

	1973	1972
Income		
Sales	\$3,946,043	\$3,526,354
Management and rental and other income	110,395	92,181
Income from affiliates	13,885	11,950
	<u>\$4,070,323</u>	<u>\$3,630,485</u>
Expenses		
Cost of sales and administration	3,233,811	2,920,224
Interest	53,229	36,079
Real estate expenses and rent	182,661	187,124
Depreciation	152,465	139,321
Amortization of deferred development expenses, contract rights and other intangibles	24,710	47,315
	<u>\$3,646,876</u>	<u>\$3,330,063</u>
Earnings before undernoted items	<u>1,423,447</u>	<u>300,422</u>
Provision for income taxes		
Current	191,338	240,328
Deferred	21,265	(91,315)
	<u>212,603</u>	<u>149,013</u>
Minority interest in profit of subsidiary	210,844	151,409
	<u>5,332</u>	<u>1,169</u>
Net earnings for the six month period	<u>\$ 205,512</u>	<u>\$ 150,240</u>
Earnings per share	<u>.24</u>	<u>.17</u>

NOTES

1. The financial information presented in this report has been prepared from the Company's records without audit.
2. (a) As stated in the 1972 Annual Report, the Company has changed its accounting policy to amortize certain intangibles over a twenty year period from the inception of Hy's of Canada Ltd. The 1972 comparative figures have been restated to reflect this new policy.
- (b) The 1972 comparative figures have restated where applicable to conform with the presentation used in the current six month period.
3. Subsequent to the date of this financial statement, the Company has negotiated a \$500,000 long term mortgage on one of its properties to finance its future developments and improve its working capital position.

HY'S OF CANADA LTD.
 AND SUBSIDIARY COMPANIES
 CONSOLIDATED STATEMENT OF SOURCE
 AND APPLICATION OF WORKING CAPITAL
 FOR THE SIX MONTH PERIOD
 ENDED MARCH 31, 1973

SOURCE OF WORKING CAPITAL:	1973	1972
Operations —		
Net earnings	\$ 205,512	\$ 150,240
Amounts not requiring current outlay of funds:		
Depreciation	152,465	139,321
Amortization	24,710	47,315
Non-current deferred income taxes	19,527	(36,879)
Minority interest	5,332	1,169
	<u>202,034</u>	<u>150,926</u>
	<u>407,546</u>	<u>301,166</u>
Sale of marketable securities	9,230	48,000
Long term borrowing	362,000	—
	<u>\$ 778,776</u>	<u>\$ 349,166</u>
APPLICATION OF WORKING CAPITAL:		
Repayment of long term debt	116,544	114,600
Increase in current portion of long term debt	40,229	(1,526)
	<u>156,773</u>	<u>113,074</u>
Additions to fixed assets	729,118	10,930
Deferred development expenses	91,482	96,103
Investments	114,378	29,260
Dividends	102,750	87,000
Income taxes deferred in prior years	9,673	3,900
	<u>\$1,204,174</u>	<u>\$ 340,267</u>
Decrease (Increase) in working capital	425,398	(8,899)
Working capital beginning of year	143,559	45,995
Working capital (Deficit) March 31, 1973	<u>\$ (281,839)</u>	<u>\$ 54,894</u>

